

Summary of Current System

	Pillar 1	Pillar 2	Pillar 3
Type:	♦ Defined-benefit		♦ Defined-contribution
Participation:	♦ Mandatory		♦ Voluntary
Management:	♦ Publicly-managed		♦ Privately-managed
Financing:	♦ PAYGO		♦ Fully-funded
Coverage:	♦ Employees, agricultural owners, cultural and scientific workers		♦ Participating employees
Eligibility:	♦ Age 60 (men) or age 55 (women) and fulfilled minimum contribution period		♦ Age 60 (men) or age 55 (women)

Challenges Facing Pension System

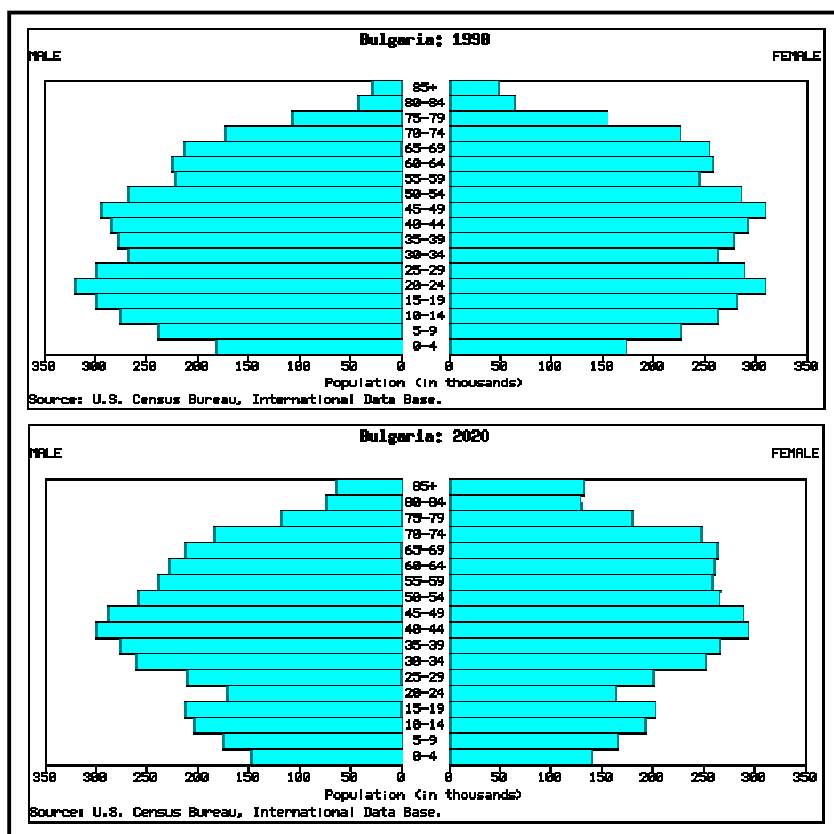
- ☐ Demographic shifts
- ☐ Contribution evasion

Summary of Current Pension System

The Bulgarian pension system consists of a mandatory defined-benefit system (Pillar I) and a privately-managed, voluntary savings plan (Pillar III). Benefits covered by the public pillar include old-age and survivor pensions and disability payments. The public pillar covers employees, agricultural members of cooperative farms, and cultural and scientific workers.

Prior to March 1996, the source of funding for pension benefits was provided primarily through employers. The government would provide funding only if the system incurred deficits. Currently, employers continue to contribute 37 percent of their payroll. Employees contribute 2 percent of their earnings while the self-employed contribute 32 percent. This contribution percentage for employers increases (up to 52 percent), if the work involved is unhealthy or laborious.

To qualify for pension benefits, men 60 years and women 55 years of age, must have completed 25 and 20 years of service, respectively. Employees receive pension benefits that amount to a minimum of 55 percent of average earnings (which is based on highest recorded salary for three consecutive years within the final 15 years of service). Means-tested social pensions are granted to disabled individual aged 16 years or older and elderly individuals over 70 years old. In addition, social pensions are given to men and women (age 57 and 52, respectively), if their position has been terminated.



Bulgaria also has a voluntary savings scheme (Pillar III) for employees. Contributions may be placed in voluntary private pension accounts, however, no established regulatory bodies have been developed to provide control or oversight. Currently, seven retirement fund companies are available to employees. About 10 percent (or 350,000 employees) of the work force participated in voluntary savings plans.

The Bulgarian government recently approved a program to establish private occupational funds. Participation in this program would be voluntary. These occupational funds will be funded by re-directing contributions, which will amount to 3

SELECTED INDICATORS

Demographic	Year	
	1998	2020
Total Population (in thousands)	8,240	7,515
Life Expectancy at Birth (Years)	71.96	77.58
Total Fertility Rate (Child Born per Woman)	1.14	1.42
Age Dependency Ratio (percent)	35%	47%
	1980-2000	2000-2020
Average Annual Rate of Population Growth (percent)	-0.4	-0.4

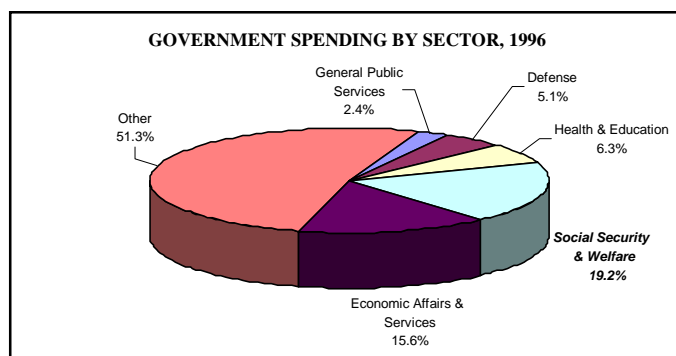
Source: U.S. Bureau of the Census. International Data Base.

Economic	1996
GNP (PPP in billions) ¹	35.8
GNP Average Annual Growth Rate, 1995-1996 (percent) ¹	-9.2
GNP Per Capita (in PPP) ¹	4,280
Inflation Rate (percent) ²	123
Labor Force Participation Rate (percent) ³	50.8
Unemployment Rate (percent) ³	12.5

Source: ¹World Bank; ²IMF; ³International Labour Office.

Pension	1997
System Dependency Ratio, 1996 (percent) ¹	74.4
Employee Contribution for Pensions (percent of earnings) ²	2.0
Employer Contributions for Pensions (percent of payroll) ²	37.0
Public Pension Expenditures as % of Government Spending	n/a
Public Pension Expenditures as % of GDP, 1996 ¹	9.5

Source: ¹IMF; ²U.S. Social Security Administration.



Source: International Monetary Fund. Government Finance Statistics Yearbook, 1997.

percent, from the public pillar. However, systems have not been established for these transfers to occur.

Challenges Facing Pension System

The Bulgarian public pension system faces considerable challenges, primarily due to an aging population and low contribution rates. Currently, the elderly population (those 60 years and older) comprises more than one-third of country's population. The number of individuals eligible for pensions has also increased significantly. In 1998, 2.5 million individuals received pensions, up 25 percent from 1994. This results in considerable financial pressure on the pension system, where one employee roughly supports one pensioner.

Another challenge is the high levels of contribution evasion within the existing PAYGO scheme. The compliance rate reached 30 percent in 1997 and is anticipated to increase by an additional 17 percent in 1998. These low compliance levels

have been caused by high contribution rates coupled with inadequate penalties to employees for omitting or underreporting earnings. The recent introduction of a monthly statement detailing employee contributions and reported wages for Pillar III contributors has shown some improvement in compliance rates. Since these improvements have occurred primarily in non-state-owned industry, the impact has been minimal on compliance to the public pillar.

Pension Reform Efforts

Although pension reform legislation has not yet been drafted, the Bulgarian Ministry of Labor and Social Policy (MOLSP) is taking the necessary steps to initiate the reform efforts. Negotiations with the World Bank are currently taking place in an effort to obtain an \$80 million Social Protection Adjustment Loan. A pension reform working committee has been established between the Center for Economic Development (a non-government workgroup established to assist the MOLSP with various policy issues) and the MOLSP. The working committee is developing strategies to introduce a standard regulatory structure for voluntary savings plans (under Pillar III). Furthermore, the working committee is developing the framework to introduce mandatory, private savings funds (under Pillar II). This pillar would receive a percentage of contributions from the mandatory public pillar.

In conjunction with USAID, the MOLSP is also in the process of establishing a technical assistance project to reform the public pension system, and to facilitate the development of Pillar II. To provide further support for the third pillar, the Bulgarian government introduced voluntary occupational funds intended to assist in developing the securities market. Occupational funds are expected to gain additional support following the approval of the technical assistance project. Finally, the Bulgarian government also intends to pursue a capital market development policy and introduce mass privatization vouchers to encourage private fund investment.

Pension Reform Efforts by Pillar

	Pillar 1	Pillar 2	Pillar 3
Papers issued on state of pension systems	✓	✓	✓
Formulation of proposals	✓	✓	✓
Development of draft legislation			
Introduction of legislation by parliament			
Review of legislation by parliament			
Passage of legislation by parliament			
Implementation of legislation			